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C O N F I D E N T I A L SECTION 01 OF 02 LILONGWE 000108

SENSITIVE
SIPDIS

LONDON FOR AF WATCHER PETER LORD

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TAGS: [EMIN](#) [EINV](#) [ECON](#) [ELTN](#) [MI](#)
SUBJECT: MALAWI URANIUM: ALMOST READY FOR PRIME TIME

REF: A. 07 LILONGWE 928
[1](#)B. LILONGWE 77

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Classified By: Economic Officer Daniel Daley pursuant to 1.4 (c) and (d).

[1](#)1. (C) SUMMARY: Paladin (Africa) Managing Director Neville Huxham told Ambassador that he expects the company's uranium mine to be fully operational by April. Initial processing of the ore has already begun, and Huxham said the first yellow-cake outputs should be available by the April opening. Plans for getting the yellow-cake to market have not yet been finalized. At full production the mine will produce an estimated 3.3 million pounds of uranium yellow-cake per year. At USD 40 to 70 dollars per pound, Paladin expects to break even on its USD 200 million investment in three years. There are proven reserves at the site to sustain the mine for ten years. Paladin plans to ship through Walvis Bay in Namibia, but negotiations with Zambia for transit have yet to take place. End summary.

COUNTDOWN TO COMPLETION

[1](#)2. (C) Paladin (Africa) Limited Managing Director Neville Huxham met with the Ambassador February 17 to provide an update on the construction of the company's uranium mine at Kayelekera. Huxham reported that some elements of the mine and the processing plant had been commissioned in late 2008, and that commissioning of the remaining facilities was ongoing. He said that the mine was on track to be fully operational by April. Initial processing of the ore has already begun and Huxham expected the first outputs of processed yellow-cake to be available by the mine's opening. Huxham said that planning was underway for President Bingu wa Mutharika to formally open the mine with an official ceremony on April 17.

SIGNIFICANT ECONOMIC IMPACT

[1](#)3. (U) With the mine operational, Paladin plans to ramp up to full production by the end of 2009. At full production the mine will produce an estimated 3.3 million pounds of uranium yellow-cake per year. At USD 40 to 70 dollars per pound this translates to at least USD 132 million per year. With Malawi's exports in 2007 (latest available data) equal to USD 693 million, this represents an increase of roughly 20 percent in total value. Paladin expects to break even on its USD 200 million investment in three years. The GOM stands to generate nearly USD 4 million per year in royalties alone, plus corporate taxes and revenue from its 15 percent stake in Paladin (Africa) (ref. A). There are proven reserves at the

site to sustain the mine for ten years.

¶4. (U) In response to a comment from the Ambassador about the need for Malawi to develop a mechanism to manage its extracted mineral wealth, perhaps using a model like the Norwegian North Sea oil trust fund, Huxham mentioned that Paladin has agreed to provide training to the GOM to increase its human capacity to handle the additional revenue. Approximately 2000 mostly local people have been employed in the construction of the mine. Once construction is completed, mine operations will employ about 300 Malawian and 40 expatriate staff. Paladin plans to train Malawians to replace expatriate staff during the life of the mine.

FROM MINE TO MARKET NOT AN EASY ROAD

¶5. (U) From the mine site the yellow-cake must be trucked out using one of Malawi's most notoriously bad roads (the Karonga-Chitipa road). The completion of the upgrade of this road from dirt to tarmac is one of the projects that China committed to provide Malawi upon the establishment of diplomatic relations (ref. B). Huxham reports that the Chinese had initially made good progress before the onset of the rainy season set back work. Work on the initial stretch of road is expected to be completed by mid 2009. After that several miles of difficult, hilly terrain will need to be upgraded before the (Paladin-built) Kayelekera access road is reached. The poor state of the road creates periodic delays in moving supplies and equipment to the mine site, although Paladin estimates that 20 trucks per day make the trip, and all of the heavy equipment for the plant has already traveled on the same road.

¶6. (SBU) Because of stringent IAEA shipping protocols,

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Paladin plans to truck the uranium across Zambia and ship it out from the Namibian port of Walvis Bay, which already has experience shipping uranium from the company's mine in Namibia. This will mean a trip of roughly 1800 miles by road. Although existing international agreements theoretically provide for transit of goods across southern Africa, and despite the benign character of yellow-cake, the sensitive nature of uranium could create difficulties. Paladin has not yet discussed its transit plans with Zambia. Company representatives are scheduled to meet with Zambian officials in March at which time it hopes to finalize an agreement.

COMMENT

¶7. (U) Although Paladin's Kayelekera mine is relatively small, it is set to have a major impact on Malawi's economy, and in particular its chronic balance of payments challenges.

We will be working with the GOM to improve its capacity in managing its increased revenue stream. We believe this is an opportunity to partner with the Norwegian government to assist the GOM. We will report on our progress in this endeavor as we proceed.

BODDE